RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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November 29, 2000 **LETTER 1310**

THE PICTURE: I think one of the basic arguments or misconceptions about this market centers around whether this is a major bear market or not.

Listening to the commentators, reading the magazines, newspapers and advisories, it's apparent to me that almost no one views what's happening as the opening stages of a major or primary bear market.

This is the reason why we see so much emphasis on every day's action -- each piece of news, each earnings report – plus, of course, the endless and mindless forecasts of the leading "name" analysts (how about "Dow 30,000 in 2002" or "Dow 50,000 in 2010?).

Most of today's analysts and experts don't see what's happening as part of a primary move. Is it a bull market, is it a bear market – the question never seems to come up. It doesn't come up because today's commentators don't know how to recognize a bull market or a bear market.

In fairness, of course, this has been a very puzzling and deceptive bear market. One of the difficulties is that the Internet and the so-called "tech revolution" hit the public's consciousness just as the bull market was topping out.

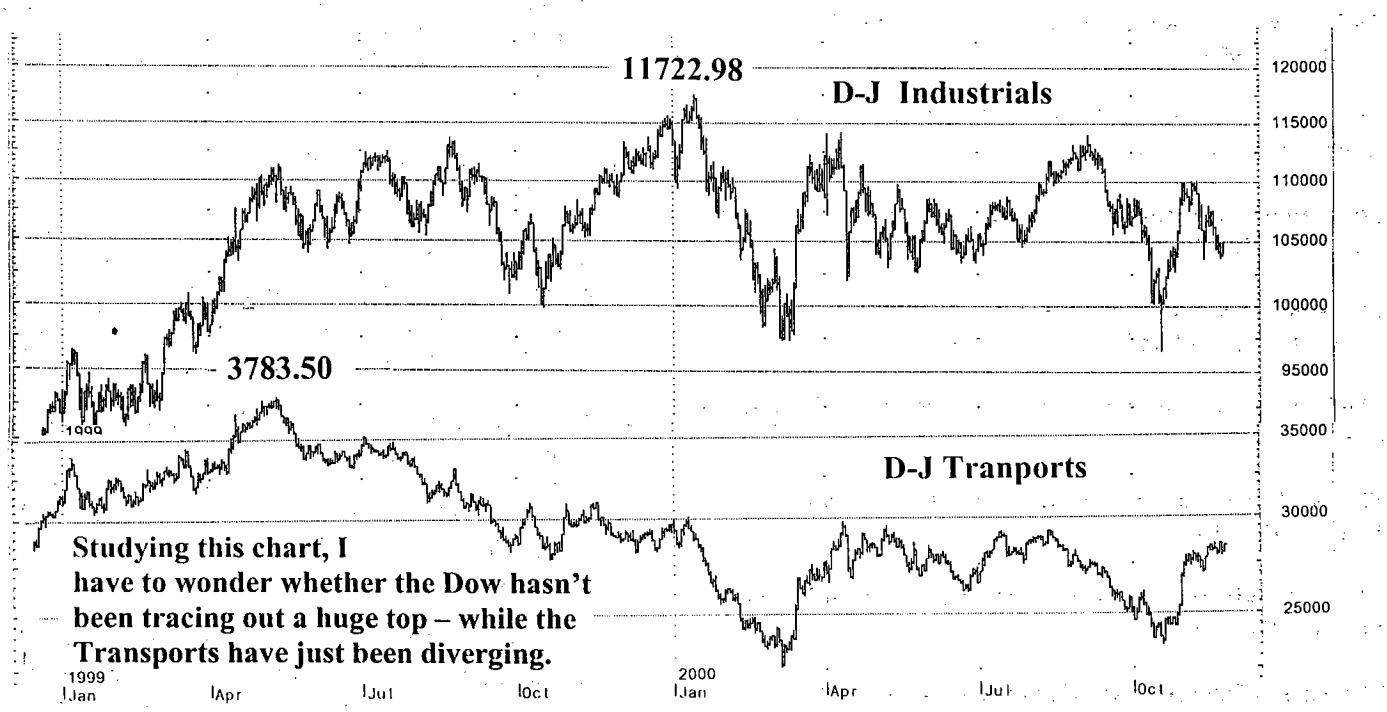
Nov 10, DJIA 10606.36; PTI 5174; A-D Ratio –7.45
Nov 17, DJIA 10629.87; PTI 5178; A-D Ratio –7.27
Nov 24, DJIA 10470.23; PTI 5172; A-D Ratio – 7.53
***Dow Yield: 1.72%; *Dow Price/Earnings: 19.9**
***Dow Times Book Value: 6.39**
***Percentage of Undervalued Blue-chips: 15%**
***Gold 34-day MA: 269**

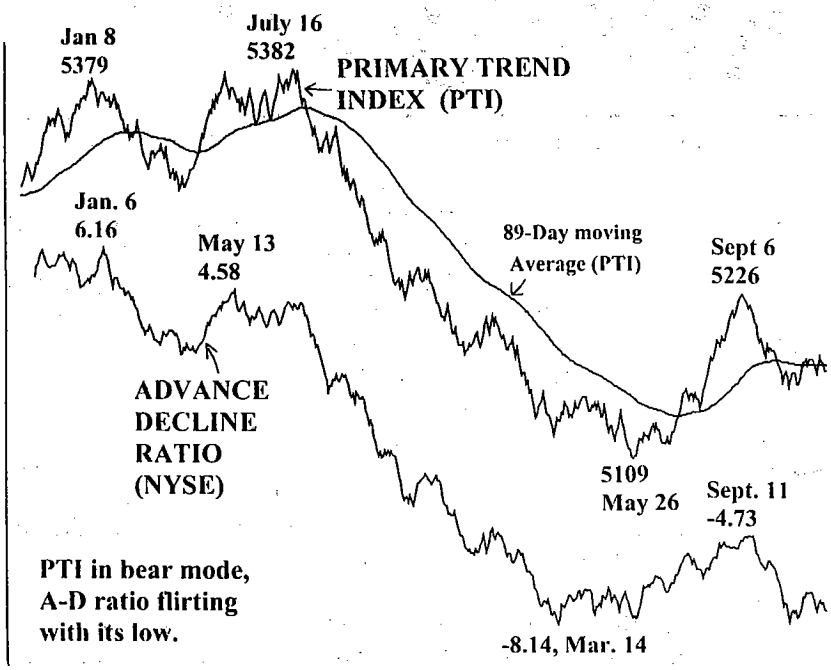
A second difficulty was the rise of TV stock market journalism (called by some "tout TV"), in which massive emphasis is placed on quarterly earnings and whether they fit in with analysts' "expectations."

Another difficulty or difference is the massive public movement into mutual funds, often through automatic monthly additions via pension funds or 401K funds.

Finally, there was the almost absurd proliferation of mutual funds, now numbering above 7,000. Think of it – on the NYSE they trade about 3,300 different stocks each session. But there are twice as many mutual funds as stocks that are traded daily on the Big Board!

I have been of the opinion all along that we have entered a major or primary bear market. I've shown via my "top-out parade" that one by one, the major indices and averages have "topped out for the duration."





The Nasdaq Composite topped out on March 10, 2000 at 5048.62

The Amex Index topped out March 23, 2000 at 1036.40.

The Wilshire 5000 topped out on March 24, 2000 at 14751.64.

The S&P topped out on March 24, 2000 at 1527.46.

The NYSE Composite Average (all NYSE stocks) may have topped out on September 1, 2000, at 677.58.

The NYSE Financial Average (banks, S&Ls, brokers, loan companies) may have topped out on September 11, 2000 at 634.16.

I believe this is one phenomenon that has allowed the bear to deceive the great mass of investors, and I am talking about the long, spaced-out progression of the top-outs. If they had all topped out within say a month or so, I'm sure the effect would have been much more pronounced and dramatic.

Just to refresh your memory and for the edification of new subscribers, I am including my "top-out parade" below. If you were not aware of this listing, you might just be surprised.

TOP OUTS

Daily new highs on the NYSE topped out at 631 on October 3, 1997.

The advance-decline ratio for the NYSE topped out on April 3, 1998 at 13.00.

The Value Line (geometric) Average topped out on April 22, 1998 at 508.39.

The Morgan Stanley Cyclical Index (index of cyclical stocks) topped out on May 10, 1999 at 619.09.

The D-J Transportation Average topped out on May 12, 1999, at 3783.50.

The D-J Industrial Average topped out on January 14, 2000 at 11722.98.

NYSE Margin accounts (the level) topped out in March 2000 at $278.5 billion.

The Russell 2000 Average (lower priced stocks) topped out on March 9, 2000 at 606.12.

The D-J Utility Average may have topped out on October 2, 2000 at 401.47.

THE GATHERING STORM: Slowly but surely, the bear market is gathering power and momentum. We see it in the economy, we see it in commodity prices, we see it in the poor performances of retail stores.

I believe there are a number of phenomena that are going to render this bear market and the coming recession worse than most, and I list them below.

(1) The Dow has not closed below the low of a preceding year since 1982. The longer this series continues, the nearer we'll be to ending the series. The low for 1999 on the Dow was 9120.67.

(2) This year promises to be the first down-year for the Dow in the last decade or since 1990.

(3) The public and the fund managers continue to be very bullish (complacent) even though a primary bear market is in force. Thus, they are not positioned for the bear, meaning that they are not positioned for lower prices.

(4) Margin accounts on the NYSE are near record high levels, even though they've come down slightly since their March record high. A high level of margins allows for substantial margin calls during market declines. Lower prices beget margin calls, and margin calls in turn beget lower prices.

(5) The Fed is widely expected to come in and "save" the market and the economy in the case of a major decline. They did this twice recently, during the Long Term

Capital fiasco and during Y2K. I don't think the Fed is going to be quite as quick to do it again.

(6) The severely negative US trade balance is really unsustainable. Somewhere ahead this has to be corrected. If it isn't, the dollar will be headed lower. If that happens, there'll be foreign pressure on all US securitites. The latest figures show a $34.3 record negative trade balance for October. Not good, not good at all.

(7) Economies are contracting worldwide. Thus, the Fed will have a problem. The problem – the Fed can't hold up the world.

(8) US consumer buying makes up two-thirds of the US Gross National Product. Consumer savings are now in the negative column. Consumers, still highly confident, are not saving, they're on a spending binge. But there are signs that the binge is coming to an end. This will impact very negatively on the US economy in the period ahead. Should the stock market fall apart in coming months, I believe consumer buying could take a startling turn for the worse.

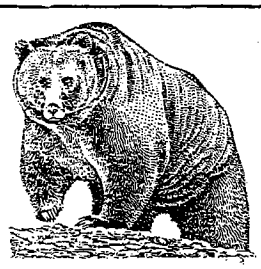
(9) Consumer and corporate debt are at sky-high levels. A high debt structure is the last thing you want during a bear market.

(10) According to Wilshire Associates, $2.5 trillion in shareholder wealth has been taken out of the market since March. A billion here and a billion there and you're talking about real money. But we're not talking about billions, we're talking about TRILLIONS.

11) Commodity prices are declining. Dram prices are down over 50% in the last 17 weeks. Copper is below 82 cents a pound. Lumber has collapsed along with copper. Scrap steel is at a fourteen year low.

The one commodity that we'd like down is oil. But oil is not cooperating, it's pushing higher. As this is written, Dec crude is above 35. High-priced oil acts as a tax on consumers; it's a tax (gas, heating oil) that hurts consumers around the world.

INVESTMENT POSITION: Bull in the box means it's a bull market. Bear in the box means it's a bear market. That makes it easy to avoid mistakes. We're in a bear market.



I've been recommending that we stay in high-grade bonds. Which is sort of comforting, considering that the stock market has been pulverized. I also recommended some utility stocks. Most of these are up, and as you are well aware, up is better than down, regardless of whether we're in a bull market or a bear market.

I continue to be worried about the dollar, but so far, miraculously, the dollar continues to do well. Our trade balance is a horror, but foreigners continue to send money over here, and as long as they do, the dollar will hold its own.

This is not the time to be cute or fancy. If you are nervous about bonds (I think it's now too late to buy them), put your money in T-bills or a money market fund. We're in a grinding, merciless bear market and the operative word is -- survival.

If you're not on the internet and receiving my daily updates, please, try to do so. If I, at the age of 76, can operate a computer and handle the Internet, you can too. Do it, do it, do it – you'll be glad you did. And my site updates are FREE to subscribers.

BONDS: The prejudice against bonds is ingrained among investors. The reason, of course, has to do with the outstanding performance of stocks as against bonds over the last 18 years. Nevertheless, there have been periods when bonds have outperformed stocks over extended periods of time, for instance, 1929 to 1943.

So far this year, bonds have outperformed stocks, although I don't think most people realize it. So far, the Dow is down 8.7% for the year, the S&P is down 8.3% and the Nasdaq is down 29.4%. Quality bonds as a rough calculation are up around 15% on a total return basis.

Right now, the 10 year T-notes are yielding about 5.6%, and remember, Treasuries are free of state taxes. T-bills, notes and bonds are backed by the full faith and credit of the US government. As such they are considered the highest-quality of all bonds. As far as safety of principal, they are considered riskless. There is no trick in buying Treasury securities -- you can buy them through your broker and the commissions are very small.

Municipal bonds are something else. Most muni bonds can be called in at a given price and at a given time. I suggest buying only AA or AAA rated muni bonds, and I suggest buying only discounted muni bonds.

Forgetting quality, bonds tend to sell as a function of the prevailing interest rates. For instance, if a 20-year bond has a coupon of 41/2% and the prevailing interest rate is 5.8%, the bond is going to sell at a discount deep enough so that the bond will provide a current yield somewhere near 5.8%.

On that basis, the bond may sell at a discounted price of 85. And let's say the bond is callable in the year 2002 at 101. It's hardly likely with the bond selling as low as 85 that the issuer will call it in at 101.

One advantage of bonds is that they will pay off at 1000 at maturity. Thus your **main risk** when buying bonds is that (1) they will underperform stocks, (2) they can default if they are of inferior grade, (3) that by the time your bonds mature, the purchasing power of the dollar will be substantially lower, and thus, you will be paid off in depreciated dollars or dollars with diminished purchasing power.

The advantage of bonds. A systematic program of buying bonds and reinvesting the interest will allow you to avoid the stress, volatility and variables of a volatile or high-priced stock market. With bonds you can plan your financial future almost as a systenatuc program, a program based on investing, reinvesting and steady compounding.

Careful: Many bonds don't show a commission when they are sold to retail buyers (and you and I are retail buyers). The money is made on the mark-up or bid-and-asked spread. For this reason, you have to be very careful when you buy bonds, and it's best to have a completely honest broker, a broker who will give you bona fide honest information about the quality of the bond you're buying, what the mark-up is and the whole story -- is it discounted, is it callable, what's the current yield, what's the yield to maturity, what's the yield to call).

Remember also, that when you buy a discounted bond and hold that bond to maturity, there will be a capital gain and tha gain is taxable, regardless of what kind of a bond it is.

PRECIOUS GEMS: I mentioned diamonds and precious stones on my web site (Nov. 6), and I asked if subscribers wanted to hear more about diamonds and precious gems. I received many e-mails all asking for more information. So here goes (confession, I've always been a precious gem nut).

In dollar value, the word to remember is r-e-d-s. This signifies rubies, emeralds, diamonds, and sapphires with rubies being the most expensive and sapphires being the least expensive.

There is a catch however. The diamond market is by far the most liquid – any decent diamond can be sold at a price. With colored stones (rubies, emeralds, sapphires) the market is much thinner, and you may have to search for a buyer.

Small diamonds, say under a carat, are common. Large diamonds over say 5 carats are rare, and diamonds over 10 carats are very rare. Prices tend to rise geometrically with size.

The four Cs with which to judge diamonds are carat, cut, clarity, color. The less color or whiter a diamond is, the better the stone. Diamonds that are graded from D (D is considered colorless) to J are all considered "white diamonds." Below J – in other words, K, L, M and below are considered yellow stones, and as such they are relatively less desirable.

Nevertheless, some "down-color" diamonds "face up" very well and command a better price than their color-grade would ordinarily warrant.

There are numerous diamond cuts -- round, oval, marquis, radiant, princess, cushion, and emerald. How well a diamond is cut makes a large difference. The better the cut, the more valuable. Often I'll see a diamond that is just cut beautifully, is sparkles, it vibrant, it almost shimmers.

There is also the question of clarity or how "clean" the diamond is. Very few diamonds are "flawless," meaning literally no specks or inclusions. Diamonds are therefore graded as to clarity.

It is highly desireable when buying a diamond to have a GIA certificate. This will give the dimensons of the diamond, and it will grade your diamond as to the four Cs. Peresonally, I would not buy a diamond without a GIA certificate.

Aside from the four Cs, there is an intangible item connected with a diamond. And that is the "look." Two diamonds can have almost identical qualities and dimensions, but one will just look better than the other. Also, one diamond will "face" better than the other, meaning it looks "whiter" or it just looks prettier. Every diamond has its own characteristics; no two stones are the same, regardless of their grading.

Diamonds are composed of carbon that has been under tremendous pressure (compressed) over billions of years. Diamond is the hardest known substance.

The old adage is that you buy a diamond at retail and sell it at wholesale. This is largely true for most purchases by ignorant buyers (and MOST buyers are ignorant).

The diamond busuiness is huge, entailing thousands of people and billions of dollars. There are miners, wholesalers, cutters, retailers, brokers, swindlers, you name it.

Your best bet in buying a diamond is to buy one through a reputable, highly knowledgeable dealer. You can buy a diamond with a GIA certificate over the net, and you may or may not get a good deal. I buy diamonds through a

jeweler buddy of mine, a man I can trust, and a man who knows and loves diamonds.

Colored gems are more difficult, and the prices can very hugely. Rubies are not appreciated in the US and sapphires are also not really appreciated. Most women like emeralds. The best emeralds come from Columbia. Emeralds and diamonds look great at night -- rubies and saphires tend to look darker and less glamorous at night Columbian emeralds have a clear green look, while African emeralds tend to have a tinge of brown in them.

A ruby is the only truly red stone. Rubies are extremely rare, and great rubies (color, clarity) are extrememly rare and very expensive.

Country of origin can make a big difference in the price of colored stones. In sapphires, the preferred countries of origin are Kashmir and Burma. In rubies it is Burma, although I've seen many beautiful, bright red Thai rubies. To my mind, a great ruby is the hardest stone to find, since many are heavily included, and many also tend to be darkish rather than "pigeon blood" red. Burmese rubies tend to be "pinkish," but I prefer blood red.

Here again, your best bet in buying a colored stone is to buy one through a reputable dealer, one who is honest and one who loves and appreciates colored stones.

For serious buyers of precious stones, I suggest first buying a book on gems. The bookstores have many such books, check them over and pick out one you like.

THE GREENSPAN PUT: The market feels terribly safe with the Green man at the helm. This could be a mistake. There are no geniuses on Wall Street, only geniuses for a while. And there are no gods at the Federal Reserve, only gods for a while.

A put is an option that allows you to sell an item at a given price. For instance, buying an S&P put at a certain price level for a certain period of time is tantamount to buying a certain amount of downside insurance in case the market heads south.

I've been writing about the "Greenspan put." This is the thesis that "Greenspan won't let it happen," that Greenspan acts like a put on the market. Or, to put it another way, Greenspan represents downside insurance. After all, didn't Greenspan save the market when Long-Term Capital fell apart? Didn't he save the world when Y2K threatened? And the thinking goes that Greenspan will save us if the market starts to tank (it already is tanking).

My take on Greenie is that he is extremely annoyed by the whole "Greenspan put" thesis, and he's probably still smarting from his "irrational exuberance" warning -- which nobody paid a damn bit of attention to. So maybe the Green man will let the bear have his way for a while – before the Fed floods the market with liquidity again.

Two new books have just been published about Greenspan -- "Greenspan" by Justin Martin and "Maestro" by Bob Woodward. Plus there is an excerpt from the Woodward book in this month's *Vanity Fair* magazine. The two books idolize Greenspan. Greenspan is now widely accepted as the "second most powerful man in the nation," and some people even hint that since he controls the nation's money, he's even (dare I say it) more powerful than the president (he's certainly lasted longer).

I feel that Greenie and I have a lot in common. We're both Jews, we both grew up in New York, we both went to NYU, he played the sax, I played the trumpet, he married a very smart woman, and I did the same. I'm losing my hair, so is Greenspan. Greenspan's in his mid-70s, so am I. And get this -- we've both been out with Barbara Walters. Only difference is that I think I'm better looking than Greenspan. And I express myself a lot more clearly.

Frankly, I'm a little nervous about all this emphasis on Greenspan and his genius. I don't know if, when the chips are down, he's going to save us. Is that heresy?

The other thing is that since he's been in office, the Fed has created three trillion additional dollars. This veritable flood of dollars has driven up the price of real estate and tech stocks, driven them up, up and up to – well, to the moon.

The tech stocks are now in the process of coming back to earth. But what about real estate? Gosh, if this bear market continues, real estate could come back to earth too. If that happened, I think people could get very disillusioned with Greenspan. They might even get mad at him (because they expected so much of him in the first place). Also, a man's home is his castle. If the price of a man's castle were to fall apart, well, that would really irritate him.

All this worries me. And I'm worried for Greenspan. I think that he should come out and tell the world that he's not our savior. Or at least he should hint at it.

But no, the fact is that Greenspan doesn't make much money at the Fed --but I think he loves the power and the adoration that his job gives him. But c'mon, now he's got a pretty wife who loves him. That should be enough. I know it's enough for me.

NOTES & QUOTES: How about this? CMGI stock collapsed from 163 last January down to a recent 10. That's a loss in market value of about $22 billion. But for the 12 months ending July 31, CEO David Wetherall took in about $193 million, according to the company's proxy statement

filed last Friday with the SEC. Wetherell, took over the company in 1986, when it was a small textbook distributor. When CMGI's board granted Mr. Wetherell additional options to buy 3.2 million shares in May, for instance, it did so "as an incentive for Mr. Wetherell to continue providing the company with first class leadership." But with an exercise price of $56.13, those options are not usable, given the company's closing price Friday of just over $ 12. **Russell Comment:** Such is life in the fast lane in the year 2000.

Want to get into a growth business? The number of deaths in the US surpassed two million in 1983 and went to 2.3 million in 1998. By 2020 the government forecasts the number of deadths will exceed three million and deaths will peak at four million by the year 2040.

There are now 35,000 licensed funeral directors, but with the deadth number rising, there are not enough people entering the field, and consequently wages and salaries are rising. Owner/managers of funeral homes made an average of $48,000 to $57,000 in 1996. Last year the average was reported to be $53,000 to $72,000. Death and taxes, a sure thing.

How are the college endowment funds doing? Very well. Here's the count: Harvard $19.2 billion. Yale $10.1 bils. Univ. of Texas $10 bils. Princeton $8.4 bils. Stanford $8.0 bils. MIT $6.5 bils. Univ. of Cal. $5.1 bils. Emory $4.5 bils. Texas A&M $4.5 bils. Wash. Univ. $4.3 bils. Stanford bonds are rated AAA, higher than the state of Calilfornia!

A lot of subscribers fail to realize what a huge tax chunk the government takes out of your taxable dividends or income. The chart below (from Morgan Stanley) shows your real return on tax-free muni bond income based on different tax brackets (all in high-tax states).

For instance, 6% muni income in California, if you are in the highest tax bracket, is comparable to a taxable income of 10.95% or almost 11%. And when you think about it, 11% is hard to make in a bear market, at least I think it is.

Muni income – it's "pure" or real income, a run-around the tax man. Today when you get a check from a muni bond, it's like receiving real money in 1920. That was before Uncle Sam decided that he could take your paycheck, and then return to you whatever portion Uncle decided that you could keep.

LATE NOTES: A slew of bearish articles are emerging from newspapers and specifically from the widely-read *Wall Street Journal.* Today (Nov. 27) the *Journal* came out with two bearish articles: one – the return of value investing and two – the demise of the clobbered day-traders.

Meanwhile, the bear wants to keep investors "happy, hoping and holding." So, thinks the bear, it's time for a rally. Two bearish articles in the *Journal* calls for a rally.

STATE		(1) FEDERAL EXEMPT ONLY				(2) MASSACHUSETTS				(3) NEW YORK CITY (State/City)			
Max. State Rate						5.95%	5.95%	5.95%	5.95%	6.85/3.82%	6.85/3.82%	6.85/3.82%	6.85/3.82%
Federal Rate		28%	31%	36%	39.6%	28%	31%	36%	39.6%	28%	31%	36%	39.6%
Eff. Comb. Rate						32.28%	35.11%	39.81%	43.37%	35.68%	38.36%	42.82%	46.04%
TAX EXEMPT YIELDS	2.5%	3.47%	3.62%	3.91%	4.14%	3.69%	3.85%	4.15%	4.41%	3.89%	4.06%	4.37%	4.63%
	3.0	4.17	4.35	4.69	4.97	4.43	4.62	4.98	5.30	4.66	4.87	5.25	5.56
	3.5	4.86	5.07	5.47	5.79	5.17	5.39	5.81	6.18	5.44	5.68	6.12	6.49
	4.0	5.56	5.80	6.25	6.62	5.91	6.16	6.65	7.06	6.22	6.49	7.00	7.41
	4.5	6.25	6.52	7.03	7.45	6.65	6.93	7.48	7.95	7.00	7.30	7.87	8.34
	5.0	6.94	7.25	7.81	8.28	7.38	7.71	8.31	8.83	7.77	8.11	8.74	9.27
	5.5	7.64	7.97	8.59	9.11	8.12	8.48	9.14	9.71	8.55	8.92	9.62	10.19
	6.0	8.33	8.70	9.38	9.93	8.86	9.25	9.97	10.60	9.33	9.73	10.49	11.12
	6.5	9.03	9.42	10.16	10.76	9.60	10.02	10.80	11.48	10.11	10.55	11.37	12.05
	7.0	9.72	10.14	10.94	11.59	10.34	10.79	11.63	12.36	10.88	11.36	12.24	12.97
	7.5	10.42	10.87	11.72	12.42	11.08	11.56	12.46	13.24	11.66	12.17	13.12	13.90
	8.0	11.11	11.59	12.50	13.24	11.81	12.33	13.29	14.13	12.44	12.98	13.99	14.83

STATE		(4) HAWAII				(5) CALIFORNIA				(6) MINNESOTA			
Max. State Rate		10%	10%	10%	10%	9.30%	9.30%	9.30%	9.30%	8.50%	8.50%	8.50%	8.50%
Federal Rate		28%	31%	36%	39.6%	28%	31%	36.0%	39.6%	28%	31%	36%	39.6%
Eff. Comb. Rate		35.2%	37.9%	42.4%	45.64%	34.7%	37.42%	41.95%	45.22%	34.12%	36.86%	41.44%	44.73%
TAX EXEMPT YIELDS	2.5%	3.86%	4.03%	4.34%	4.60%	3.83%	3.99%	4.31%	4.56%	3.79%	3.96%	4.27%	4.52%
	3.0	4.63	4.83	5.21	5.52	4.59	4.79	5.17	5.48	4.55	4.75	5.12	5.43
	3.5	5.40	5.64	6.08	6.44	5.36	5.59	6.03	6.39	5.31	5.54	5.98	6.33
	4.0	6.17	6.44	6.94	7.36	6.13	6.39	6.89	7.30	6.07	6.34	6.83	7.24
	4.5	6.94	7.25	7.81	8.28	6.89	7.19	7.75	8.21	6.83	7.13	7.68	8.14
	5.0	7.72	8.05	8.68	9.20	7.66	7.99	8.61	9.13	7.59	7.92	8.54	9.05
	5.5	8.49	8.86	9.55	10.12	8.42	8.79	9.47	10.04	8.35	8.71	9.39	9.95
	6.0	9.26	9.66	10.42	11.04	9.19	9.59	10.34	10.95	9.11	9.50	10.25	10.86
	6.5	10.03	10.47	11.28	11.96	9.95	10.39	11.20	11.87	9.87	10.29	11.10	11.76
	7.0	10.80	11.27	12.15	12.88	10.72	11.19	12.06	12.78	10.63	11.09	11.95	12.67
	7.5	11.57	12.08	13.02	13.80	11.48	11.98	12.92	13.69	11.38	11.88	12.81	13.57
	8.0	12.35	12.88	13.89	14.72	12.25	12.78	13.78	14.60	12.14	12.67	13.66	14.47